

Message Text

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ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 EB-04 NSC-05 SP-02 INR-05
CIAE-00 DOE-01 SOE-01 L-01 PM-03 DODE-00 NSAE-00
TRSE-00 OMB-01 OES-02 /048 W
-----016707 141843Z /47
P 141742Z APR 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC PRIORITY 7043
INFO AMCONSUL CALGARY POUCH

C O N F I D E N T I A L SECTION 01 OF 02 OTTAWA 01922

LIMDIS

DEPARTMENT FOR EUR/CAN AND EB

PASS DOE/FERC FOR COMMISSIONER SMITH AND JOHN ADGER

E.O. 11652: GDS
TAGS: ENRG, ETRD, CA
SUBJECT: NORTHERN GAS PIPELINE: STRATEGY FOR SECURING
ADVANCED DELIVERY OF CANADIAN GAS

REF: (A) JOHN ADGER'S MARCH 17 LETTER TO AMBASSADOR
(B) CALGARY 189
(C) 77 OTTAWA 1323
(D) 77 CALGARY 144
(E) 77 CALGARY 434
(F) 77 CALGARY 444
(G) CALGARY A-23, NOVEMBER 29, 1977
(H) CALGARY A-08, MARCH 9, 1978

1. WE HAVE REVIEWED POINTS IN REFERENCED LETTER (A) AND
ATTACHED MARCH 8 ADGER-TO-SMITH MEMORANDUM REGARDING
STRATEGY FOR SECURING ADVANCED DELIVERY OF CANADIAN GAS
TO FACILITATE FINANCING NORTHERN GAS PIPELINE AND OFFER
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FOLLOWING COMMENT:

2. WHILE WE UNDERSTAND THAT WEST COAST AND OTHER GAS COM-
PANIES PARTICIPATING IN GAS PIPELINE PROJECT FACE FUNDA-
MENTALLY DIFFERENT SUPPLY SITUATIONS AND THAT NON-WEST
COAST COMPANIES FOR QUITE LEGITIMATE REASONS ARE RELUCTANT
TO PARTICIPATE IN REPAYMENT ARRANGEMENT, GOC IS VERY FIRM

IN ITS INSISTANCE THAT INCREASED EXPORTS BE TIED TO SOME SORT OF GAS SWAP ARRANGEMENT. DURING VICE PRESIDENT'S VISIT WE SUCCEEDED IN SOFTENING GOC POSITION TO WHERE THEY AGREE THAT PROPOSALS CONTAIN AN "OPTION" TO PAY BACK GAS RATHER THAN HARD REQUIREMENT TO DO SO, BUT SOME KIND OF SWAP MUST BE INCLUDED IN ALL PROPOSALS IN ORDER TO SECURE GOC APPROVAL.

3. GOC, HOWEVER, HAS NOT SPECIFIED ANY RIGID FORMULA FOR REPAYMENT. WE DO NOT BELIEVE CANADIANS HAVE SERIOUSLY STUDIED POSSIBLE SWAP PROVISIONS SUCH AS TIMING, QUANTITY AND PRICE. THEIR ONLY REQUIREMENT IS THAT PROPOSALS FOR INCREASED EXPORTS CONTAIN SOME PROVISION FOR REPLACEMENT AT LATER DATE WITH GAS. AS OF NOW THEY WILL NOT AGREE TO BTU SWAP INVOLVING OTHER FUELS.

4. OUR STRATEGY SHOULD THEREFORE TAKE MAXIMUM ADVANTAGE OF APPARENT FLEXIBILITY IN CANADIAN POSITION ON SPECIFIC DETAILS OF SWAP. THERE SHOULD BE NO FIXED DEAL. RATHER, EACH PURCHASING COMPANY SHOULD PROPOSE AS SOON AS POSSIBLE SWAP-BACK OPTION IT CAN LIVE WITH. FOR WEST COAST IMPORTERS IT MIGHT BE A SWAP-BACK OPTION BACKED BY A GENERAL CORPORATE GUARANTEE (RATHER THAN SPECIFIC IDENTIFICATION OF ALTERNATIVE SOURCES). FOR SOME COMPANIES THAT NOW IMPORT CANADIAN GAS IT MIGHT BE FRONT LOADING OF EXISTING CONTRACTS. NEGOTIATIONS WITH GOC COULD THEN BEGIN

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BASED ON VARIOUS PROPOSALS THAT EMERGE. ONLY AT THAT POINT CAN WE FIND OUT HOW FAR OTTAWA CAN BE PUSHED.

5. INEVITABLY THERE IS AN ELEMENT OF CIRCULARITY HERE. IF NEW GAS EXPORT CONTRACTS ARE SIGNED, AND THE GAS BUBBLE PRODUCED AND SOLD, EXPLORATION AND DEVELOPMENT WILL CONTINUE AND POSSIBLY EVEN ACCELERATE, THEREBY MAKING CANADIAN EXERCISE OF A RECALL OPTION REMOTE. BY JUGGLING THE VARIABLES (FOR EXAMPLE BY REQUIRING EARLY EXERCISE OF ANY RECALL OPTION) COMPANIES CAN ALSO CONTRIBUTE TO MAKING SWAPS WHAT THEY SHOULD BE: WINDOW-DRESSING TO SATISFY THE POLITICAL NEEDS OF CONSUMING COMMUNITIES.

6. ELECTION (NOW EXPECTED FOR JUNE) CAN CUT BOTH WAYS. BECAUSE OF ECONOMIC PRESSURE AND PUBLIC INTEREST IN GOOD RELATIONS WITH U.S., A DEAL ANNOUNCED DURING CAMPAIGN PERIOD WOULD BE ELECTORAL PLUS FOR LIBERAL GOVERNMENT. FOR THAT REASON (AS WELL AS TO BE SURE HE GETS WHAT HE WANTS IN TRADE) ALBERTA PREMIER LOUGHEED PROBABLY WOULDN'T ACCEPT A QUICK DEAL. AND ELECTIONS WOULD MAKE THE FEDS CAUTIOUS IN NEGOTIATING SWAP TERMS. THUS WHILE WE SHOULDN'T DISCARD THIS POSSIBILITY FOR AN EARLY DEAL,

THE MOST PROBABLE TIMING IS YEAR END, WITH TOKYO ROUND
AND REGULATORY BODY RETURNS IN.

7. WHILE FEDERAL GOVERNMENT MUST GIVE FINAL APPROVAL TO
INCREASED GAS EXPORTS, IT CANNOT DEAL FORMALLY WITH
EXPORT REQUESTS UNTIL ALBERTA GOVERNMENT CONSENTS. WE
SEE INCREASING SIGNS THAT GOA WILL GIVE US GREEN LIGHT.
BOB BLAIR TOLD ME EARLY LAST MONTH THAT HE THINKS GOA
POSITION ON TRADE CONCESSIONS IS SOFTENING AND IS NOT

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C O N F I D E N T I A L SECTION 02 OF 02 OTTAWA 01922
LIMDIS

REAL CONSTRAINT. CONGEN CALGARY HAS PICKED UP SIGNALS
CONFIRMING THIS FROM FOOTHILLS (YUKON) CHAIRMAN KELLY
GIBSON AND OTHER SOURCES. (SEE REFTEL B.)

8. WE TALKED TO NATIONAL ENERGY BOARD ABOUT POSSIBILITY
OF CONNECTING GAS SUPPLIES OUTSIDE OF SOUTHERN ALBERTA
TO ALCAN SYSTEM. THEY TELL US THAT NONE OF THE GAS
FIELDS IN B.C., YUKON OR NWT WITHIN ECONOMIC REACH OF
PIPELINE COULD BE CONNECTED TO IT. ALL BUT A FEW WELLS
ARE ALREADY CONNECTED TO EXISTING GATHERING SYSTEMS AND
PIPELINES; THOSE NOT CONNECTED WOULD POSE SERIOUS
TECHNICAL PROBLEMS. PROCESSING AND PRESSURE COMPATIBILITY
DIFFICULTIES WOULD PREVENT CONNECTION. SOME SOURCES IN
NORTHERN ALBERTA COULD BE CONNECTED TO SYSTEM BUT GAS
WOULD HAVE TO BE EXPORTED TO U.S. ONLY; NO GAS FOR
CANADIAN MARKET COULD BE HOOKED TO SYSTEM IN THIS MANNER.

9. WE WANT TO SUBSTANTIATE THIS. CONGEN CALGARY WILL
INQUIRE ABOUT DETAILS WITH INDUSTRY AND GOVERNMENT SOURCES
IN ALBERTA. INQUIRY WILL PROBABLY TAKE SEVERAL WEEKS.
IN INTERIM, SOME OF OUR PREVIOUS REPORTING ON GAS RESERVES

AND PRODUCIBILITY MAY BE PERTINENT SOURCE OF INFORMATION
ON GAS SUPPLIES OUTSIDE OF SOUTHERN ALBERTA. THESE
MESSAGES ARE REFERENCED ABOVE (C-H). WE THINK REFS G
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AND H WILL BE USEFUL IN IDENTIFYING PRODUCIBILITY AND
RESERVES BY AREA IN ALBERTA. IN EVENT REFERENCES HAVE
INADVERTENTLY NOT BEEN CIRCULATED TO FERC, WE ARE
POUCHING COPIES DIRECTLY TO COMMISSION FOR JOHN ADGER.
ENDERS

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